

 igniting ideas for the mortgage industry.

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January 16, 2014

All Lenders Need Good

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Welcome to 2014; the year of the horse for the Chinese and the year of the QM for mortgage bankers. It's been a few weeks since our last newsletter and to be honest it has been a bit difficult writing something without strong references to QM. It has been the sole focus of early 2014 for many and is truly important. With that said, we also hate tunnel vision and feel it necessary to wrap up some thoughts that have accumulated over the year and will continue to be areas of focus for 2014. Embrace your COPS...and retain your servicing.

Oh yeah, and a big thank you to Mr. Watt. Thank you for your first official act as FHFA director, we didn't need 2014 to kick off with a tremendous bump in rates. Let's all hope the delay is extended indefinitely.

We are inundated with so much information each day and deciding what to read or review is a task in and of itself. One piece that provides some clear and direct market commentary is from Darryl Reader at Multi-Bank Securities. We are including a link to Reeder's Market Wrap that can be found [here](#). It offers good color, especially for those looking at spec pools and securitizations.

We strive to keep you all well-informed, as we share our views. Staying a step ahead and running a tight operation are the keys to success in the mortgage banking world, and we are here to help bankers do so. We hope you find our newsletter useful, and if there is anything you want us to cover, [please let us know](#).

All Lenders Need Good COPS

Starting a few years ago with the revamping of the disclosure process, introduction of NMLS and the Loan Officer Compensation rules, a lenders focus on compliance jumped to the forefront of operations. In working with our clients, the handling of compliance, like workflows varies greatly and is subject to

interpretation. Some have strong, efficient compliance departments. Others have processes that allow for substantial exposure. Of the latter, some realize their pitfalls, but are unsure of how to address them while the rest operate under the false premise that they are managing compliance correctly. Although we are not attorneys or a compliance firm, we do assist most of our clients in implementing the right compliance procedures by building streamlined processes in their workflow to ensure policies are adhered to and easily reported.

It's all about a lenders COPS - Compliance Operations.

The mortgage process today is dependent on a number of departments interacting and working together in a common goal of being compliant, oh and closing loans too. It usually begins with the Compliance department establishing policies which are then transferred to both the Technology and Operations departments to build a workflow to ensure the guidelines are being adhered to. The increase in regulation changes has made compliance a regular seat at the executive table and in association with their interpretation is how the company is going to support them while trying to still remain profitable. Some lenders use a 'plug the hole' approach in their COPS which becomes inefficient and burdensome. Firms must be mindful of highlighting a point of exposure and creating a fix that works, but may be manual or cumbersome to manage. Add a few of these items up with manual checks, data inputs, running various technologies, etc. and the origination process becomes an inefficient struggle.

A summary of 2013 shows a tale of two halves for most mortgage bankers. Each firm's approach to the business was very different on October 1 than it was on March 1. 2013 began as a year of managing volume and ended the year of managing costs. 2014 will be a year of managing compliance, but we must be mindful that this is the mortgage business, even if it feels like many have morphed into a compliance company. While some play good cop/bad cop with their children, in the mortgage business playing good "COP" is critical. Volatile market conditions impact volume and platforms can shift, but one constant remains - the need for strong COPS.

Whether bankers were busy or slow, a good engine (read LOS and integrated technologies) to help deal with these never-ending compliance updates became a requirement.

Our goal everyday is to help clients improve their profitability by increasing their operational efficiency and this includes their ability to support COPS. This sounds great, but how can it be achieved? As this market continues to evolve a lender's ability to succeed (i.e. remain profitable) will be based on its Operational foundation. It can come in the form of technology, data integrity, workflow, Secondary execution, quality control protocols, and compliance management. The successful firms will create their policies and then figure out how best to support them. Less successful firms are sitting on the sideline and waiting to see how others are addressing the issues or plugging holes. This leads to exposure not just in a choppy workflow, but also when regulations or interpretations shift. These are not productive approaches, something we look to fix.

In speaking with our contacts at the agencies and judging by the level of interest at the Independent Mortgage Bankers Conference in December, there will be an increase in agency approvals in 2014. For a number of factors an agency approval has become a much needed element in lenders Secondary strategy and overall business model. Servicing values seem to be the new rage as valuations are on the rise, bolstering balance sheets and MSR sale agreements are becoming standard practice.

While getting the approval to sell or securitize is a great accomplishment, often coming after 6-12+ months of effort, the new authority comes with a series of operational requirements that need to be implemented in order to successfully deliver to the agencies. This is where most struggle. A common question amongst those at Fannie, Freddie and GNMA - Why does every banker push so hard to obtain their approval and then not send us any business for 6+ months? Whether it's delivering to the cash window or via securitizations, whether it's retaining servicing or selling bulk or flow MSRs, workflow and technology updates will be needed in just about all departments e.g. Secondary, Underwriting, Processing, Quality Control, Technology, Closing, Post Closing, Accounting, and Servicing.

In an effort to assist newly approved lenders, we have created an Agency Approval program which assists lenders in navigating the series of required changes and shortening the implementation timeline. The program contains a checklist of dozens of operational items that may be needed prior to your initial loan delivery. Whether it is a Fannie, Freddie, or Ginnie Mae approval, a firm needs to go through a series of procedures to gain the insight needed for successful loan delivery. From multiple technology and reporting requirements to establishing servicing protocols, this is new territory for most and guidance is a tremendous help as we look to create and implement tailored workflows, technology, and best practices.

A copy of our program can be found [here](#). The good news is that you received your agency approval. The bad news is that it could be at least six months before your first trade without some experience in this area. If you want to actually put your seller/servicer or issue approval to work (and quickly) please reach out to us. While you're servicing loans, we're here to service you.

About Us:

Matchbox is a collection of gritty industry veterans who decided to create a company aimed at helping mortgage companies ignite ideas that are outside the box to realize their true potential. We have years of real life, hands on experience in the business, and we want to offer our keen insight to others as they take on the challenges before them.

As individuals, we each contribute unique perspective and expertise. Collectively we provide a true roadmap to success, regardless of your current situation. Like any master craftsman,

we are very passionate about our work and we approach each client as if your company were our own. In the end, we help you, be a better you.

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